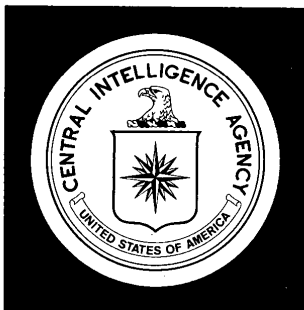


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The President's Daily Brief

November 8, 1974

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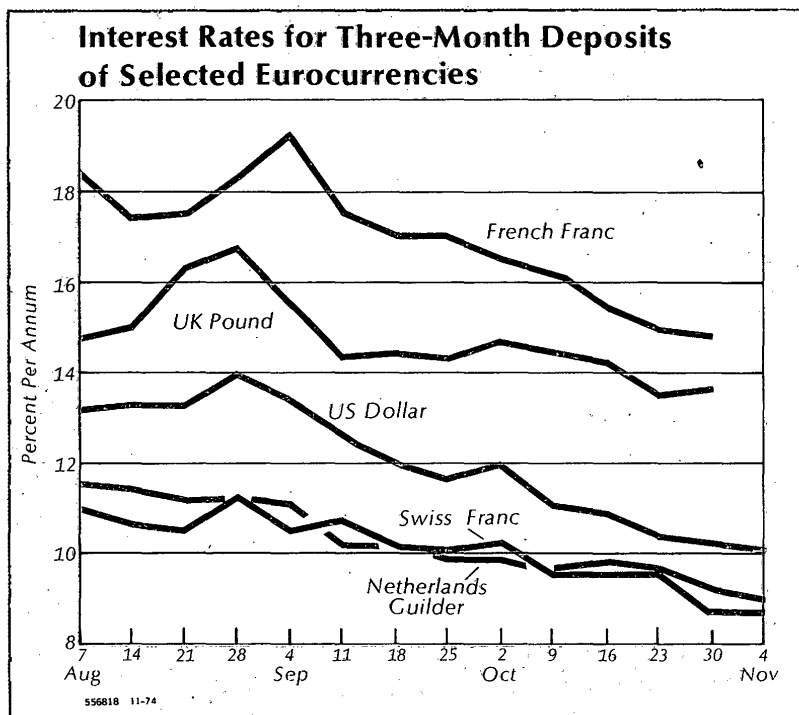
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INTERNATIONAL MONETARY DEVELOPMENTS

The dollar continued its decline on foreign currency exchanges yesterday, while the price of gold eased only slightly from Wednesday's near-record level of \$178 an ounce. The dollar has now declined by as much as 3 percent against major European currencies since the end of October.

The largest declines have been against the deutschemark and Swiss franc, which have gained 1.6 and 2.8 percent respectively relative to the dollar. Most other European currencies, including the lira, have gained slightly more than 0.5 percent, while the yen has remained unchanged.

The downward trend of short-term interest rates in the US and the resulting decline in Eurodollar rates is making other European currencies more attractive, despite some interest-rate declines for those currencies. Prime rate reductions by US banks also have encouraged speculation that rates will fall even lower and have caused some movement out of dollars into European currencies.

Some traders are citing fears that the election of a heavily Democratic Congress has hurt the chances for a successful anti-inflation program in the US; this factor is probably less important than the influence of relative interest rates. The possibility of a coal strike in the US is also a factor.

The surge in the price of gold--up more than \$10 an ounce in the last week--is linked mainly to prospects of an increase in demand that may result when US citizens are permitted to enter the market at the end of the year. The current market is quite small--daily transactions in London have ranged between \$15 to 20 million--and the entry of US buyers could increase the speculative demand substantially.

Gold's rise to near-record levels may also be helped by the general reduction in short-term interest rates, which lowers the cost of holding gold. Some Swiss bankers are predicting prices of over \$200 an ounce by the end of the year. That price could be reached or exceeded unless some countries sell official holdings of gold in order to cash in on the high price.

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SAUDI ARABIA

The death last Tuesday of Anwar Ali, governor of the Saudi Arabian Monetary Agency (SAMA), may accelerate the emergence of a less conservative Saudi investment policy.

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In an attempt to reduce SAMA's role, even prior to Ali's death, Saudi officials had laid plans for a new overseas investment office.

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SAMA has had the responsibility for investing essentially all the Saudi government's foreign assets,

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Saudi liquid assets are now at peak levels. SAMA's operations came to a halt during Ramadan--Muslim holy days--and some \$8 billion in oil receipts during September and October have piled up in European banks. Over \$2 billion in receipts for November are due next week. Any delay in introducing a new investment policy will substantially worsen the problem.

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UNITED KINGDOM

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TURKEY

Prime Minister Ecevit's postponement of Secretary Kissinger's visit to Ankara, combined with his withdrawal as formateur and his threat to resign from the caretaker government, may have been in part an effort to break the seven-week-old political stalemate that has prevented the formation of a new government.

Ecevit's announcement came on the heels of declarations by leaders of the major opposition parties that they would oppose any attempt to form a minority government. He had already been turned down earlier this week in his efforts to put together coalitions with both the Justice and Democratic parties.

Ecevit may hope that the growing concern of the Turkish military over the possibility of losing US assistance if there is no progress on Cyprus will prompt the armed forces chiefs to do some arm twisting of their own to break the political stalemate.

The next step is for President Koruturk to appoint someone to make another effort to form a government. The President may turn to the leader of one of the small right-wing parties or try again to find support for a nonpartisan government. If these options remain closed, the opposition parties may yet decide to support Ecevit in a minority government.

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PALESTINE LIBERATION ORGANIZATION - UN

Although moderate leaders of the Palestine Liberation Organization are buoyed by their success at the Arab summit in Rabat, they apparently do not intend to press their maximum demands against Israel during the UN General Assembly debate scheduled to begin next week.

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Some PLO spokesmen are still making hard-line statements that the establishment of the Palestinian "national authority" authorized at the Rabat summit is merely a step toward the achievement of a "secular, democratic state in all of Palestine." This seems to be mostly pep talk for internal Palestinian consumption.

During Secretary Kissinger's visit to Cairo this week, Mohammed Riad, an official in the Egyptian Ministry of Foreign Affairs, told a senior US official that agreement had been reached at Rabat that the PLO would avoid making any statement that could be interpreted as threatening the existence of Israel. Riad said that he expected constructive debate and emphasized that Egypt would try to dampen extremism on the part of the PLO or other Arab UN representatives.

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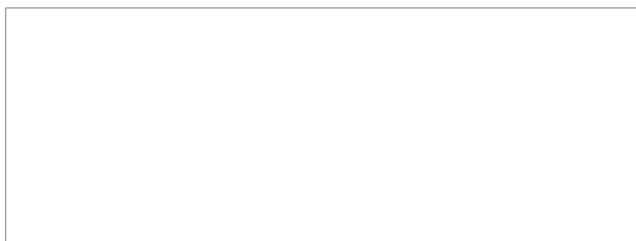
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EGYPT



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EGYPT-FRANCE

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The Egyptian air force is being improved significantly by the arrival of French Mirages

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The Israelis are almost certainly aware that the Mirages have begun to arrive in Egypt, and they may cite this to buttress their arguments for more support from the US. They are also anticipating the arrival of MIG-23s.

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CHINA-USSR

The Chinese have made an unusually conciliatory gesture in a message to the Soviet government marking the anniversary yesterday of the Russian Revolution. The gesture is contained in a proposal calling for a mutual nonaggression and nonuse of force agreement, a mutual troop pullback from disputed border areas, measures to avert armed conflict along the frontier, and maintenance of the status quo on the border itself.

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[redacted] The Chinese had greeted earlier Soviet calls for a nonaggression pact with contempt, and have insisted that any such agreement would have to be linked to withdrawal of Soviet forces from "disputed parts" of the frontier. The Soviets, for their part, argue that there would be no "disputed" sections were it not for artificial Chinese claims with no legal basis.

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China almost certainly expects Moscow to find Peking's initiative unacceptable, since it continues to link a nonaggression pact with withdrawal of forces from contested sections of the border. It seems likely that the Chinese publicized their proposal for propaganda purposes in an attempt to escape the onus for five years of fruitless talks on the border problem.

Despite the difficulties that the Soviets will see in the Chinese proposal, they may feel constrained to give some positive evidence of a desire to compose differences. They may even try to take advantage of the Chinese initiative in an attempt to show that the state of Sino-Soviet relations is not as bad as generally believed.

Toward this same end, Moscow could send its chief border negotiator, Ilichev, back to Peking. The Soviets might hope in this way to strengthen their own hand in the talks with you later this month near Vladivostok. Shortly before the Soviet-US summit early last summer, Ilichev was sent back to Peking after an absence of nearly a year. He accomplished nothing and has since returned home.

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NOTES

Bolivia: President Banzer has moved to restore his authority in the provincial capital of Santa Cruz, approximately 350 miles southeast of La Paz, where a group of dissident politicians revolted yesterday and briefly took over two radio stations. The President went to Santa Cruz with reinforcements after receiving word that troops of an infantry regiment in the area were supporting the insurgents. Late reports from La Paz indicate that order has been restored and that most of the insurgent troops have surrendered. The rebels are led by Carlos Valverde, a right-wing politician, and retired General Julio Prado, patriarch of one of the nation's most prominent families.

USSR: Through the end of October the rate of Jewish emigration to Israel remained lower than last year. According to the Dutch, who process Israel-bound emigrants in Moscow, the ten-month total for 1974 was only 17,200--40 percent lower than the same period in 1973, when 28,212 were allowed to emigrate. The Dutch calculated on this basis that the overall total for 1974 would be 20,000 to 22,000.

Portugal: The army has canceled participation in a modest US-sponsored training program. The chief of staff explained that the officers would be needed at home during a delicate political period. The Portuguese military is indeed managing a fluid political situation and we doubt that any affront to the US is intended.

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